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UNCLAS SECTION 01 OF 02 SANTO DOMINGO 006915

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SUBJECT: DOMINICAN REPUBLIC TOWARD PARIS CLUB AND THE IMF
STANDBY

REF: SANTO DOMINGO 6841

11. (U) Dominican Technical Secretary Temistocles Montas called in Paris Club governments' local representatives on December 29 and asked them to offer financing assurances for the Dominican Republic for 2005-2006 at the next Paris Club meeting, which is scheduled for the week of January 10. Montas said that at the last meeting on December 12, the Paris Club validated the Dominican strategy for handling its external arrears but had saved a decision about financing assurances for the January meeting. The Dominicans are working toward completing all of the prior actions that are pre-requisites for a new IMF standby program, and identifying how the country's financing gap will be filled is one of them.

12. (U) The timing is important to the Dominicans, Montas said. The deadline for completing the prior actions is January 11 if the IMF Board is to consider the standby at its January 21 meeting. In fact, Montas said the Government is trying to meet all of the prior actions by January 7. The Dominicans want to be on the agenda for the January 21 IMF Board meeting because January 21 is the holiday for the protector of the country, Altagracia. Launching the new standby on the day of the protector of the country holds great symbolism that President Fernandez would like to take advantage of.

13. (U) Montas said there were only three more prior actions to complete (other than Paris Club) and that all three are in process. The first is passing the domestic budget. The Senate has already acted, and passage in the Chamber of Deputies is expected either this week or next. The second is issuing a decree to establish a committee to handle the electricity crisis. The decree is drafted but President Fernandez decided to wait until January 3 or 4 to issue it. And the third is issuing a decree that eliminates certain illegal customs measures--administrative measures that DR Customs had no legal right to institute, such as Customs exceptions for books and medicines.

14. (U) Montas added that by December 31, the Dominicans will have eliminated all its external debt service arrears to Paris Club creditors. This had also been a prior action, but Montas categorized it as essentially completed. The Government planned to do the same (eliminate arrears) on debt service owed to private banks in the first few days of the new year. Among other, apparently completed prior actions that Montas mentioned were the following:
-Starting operation of the Committee for Recovering Assets
-Consulting with the bondholders and the four big banks that hold 85 percent of the debt on which service is due in 2005 and 2006. The Government will meet with the banks in mid-January.
-Establishing a mechanism to control/coordinate Dominican external borrowing.
-Establishing a plan for recapitalizing the banks
-Reviewing banks' business plans

15. (U) Montas acknowledged explicitly creditor governments' distrust of the Dominican Government following the failures of the past two IMF standbys. He said that the Fernandez government has sufficient will to fully comply with the standby it hopes will be approved January 21. Montas observed that as soon as CAFTA is ratified, the Government will move forward on a fiscal reform project.

16. (SBU) Note: We appreciate the Department's offer to review arrears and inform the Embassy of any obligations to U.S. Government creditors that have not been cleared by December 31 as Technical Secretary Montas indicated they would be. We also understand from separate discussions with the Department that the U.S. will probably support giving the IMF financing assurances of one year as requested by Montas, and we request that the Department inform us before the January 10 Paris Club meeting if this changes. End note.
Hertell